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WORLD COTTON PROSPECTS

Summary

During April and May domestic sales of cotton textiles increased materially along with the advance in prices of stocks, cotton, and other commodities, and the improvement in general sentiment as to the trend of business conditions. The increase in unfilled orders and decrease in stocks of cotton textiles on hand caused mills to speed up operations. Mills that had not been operating for many months have begun operating and mill activity in May reached the highest levels for 3 years, comparing favorably with the levels reached in the active season of 1926-27. During the first part of June domestic cloth sales were less than in recent previous weeks, though they were probably only slightly below the large output. The slight weakness in cotton prices which developed during the first part of June and the strength of textile prices resulting from the prospective legislative restrictions on hours and wages are said to have reduced cloth sales. In Europe sales of cotton textiles in recent weeks have, on the whole, probably equaled or slightly exceeded production which has increased slightly. Japanese activity continues at record levels, but in China mills restricted activity in May, although by mid-June there had been some increase.

Domestic exports during May reached almost 600,000 bales and were the largest for the month since 1927. May exports are usually smaller than for any previous month of the season except August, but this year they were larger than for either of the 3 previous months, February, March, and April. The advancing prices and the improvement in the general business outlook no doubt account for this.

During the week beginning June 26, cotton farmers of the South are to be given an opportunity to enter into an agreement with the Secretary of Agriculture to decrease acreage and production this year.

Prices

Cotton prices in the 10 markets, which at mid-May were about 8.5 cents per pound, advanced to 9.31 cents per pound by May 30. This was the highest price recorded in these markets since the early part of July, 1931, almost 2 years ago. The average for the month of May was 8.49 cents compared with 6.84 cents in April and 5.41 cents in May 1932. During June the average of prices in the 10 markets have been fluctuating within a narrow range about the 9-cent level, with the quotations on June 21 averaging 9.18 cents per pound. Since early February the trend of domestic prices has been upward, and at the high point of May 30 were 3.62 cents above the levels of early February, 3.86 cents above the low point of this season, and 4.55 cents above the low point of the depression reached in June last year. In Liverpool prices of American cotton have advanced materially both in sterling and in United States currency. In recent weeks prices of Indian cotton in the British market has moved about as American.

Stocks and Movement

Apparent supply of American cotton in United States

On June 1 the apparent supply of American cotton remaining in the United States was 10,739,000 bales compared with 11,296,000 bales on June 1 last year and 7,800,000 bales year before last. Of the total stocks of American cotton in the United States on June 1 this year, 7,283,000 bales were in public storage and at compresses, 1,339,000 bales at consuming establishments and approximately 2,117,000 bales elsewhere, including cotton on farms, cotton for export on shipboard but not cleared, cotton coastwise, cotton in transit to ports, interior towns, and mills, etc. On June 1 last year stocks in public storage and at compresses in the United States totaled 7,581,000 bales, the largest on record for that date. Mill stocks at that time amounted to 1,411,000 bales, with stocks on farms, in transit, etc., totaling about 2,304,000 bales.

Exports of American

During May exports of American cotton totaled 592,000 running bales compared with 501,000 bales in May last year, 336,000 bales in May 1931 and was the largest for the month since 1927. The May exports were considerably larger than the 3 previous months, despite the fact that May exports are usually lower than any previous month of the season except August. The shipments to Germany, Italy, and France were largely responsible for the increase over May last year.

Total exports for the season up to the first of June amounted to 7,113,000 running bales, or 785,000 bales less than in the like period last year, but was larger than any other like period since the 1928-29 season. During the 10 months, August 1 to May 31, this season, Germany took more American cotton than any other foreign consumer. Germany's takings during this period amounted to 1,590,000 bales compared with 1,445,000 bales taken

by Japan, and 1,227,000 bales by the United Kingdom. Practically all European countries have taken larger quantities of our cotton so far this season than during the like period last season. Japan took almost as much American cotton in May this year as a year earlier, but for the 10 months shipments to that country have been 681,000 bales less. China took only about one-fourth as much as in May last year, and for the 10 months, exports to China totaled only 242,000 bales compared with 996,000 bales from August to May last season.

Exports of Egyptian and Indian cotton

Exports of Indian cotton continue to run above the low levels of last season, but considerably below the levels of 1930-31, according to data from the Commercial and Financial Chronicle. During the 4 weeks ended June 8 exports of Indian cotton totaled 186,000 bales of approximately 400 pounds compared with 119,000 bales in the corresponding period last season and 231,000 bales in the like period of 1931. For the season from August 1 to June 9, total shipments from India amounted to 1,781,000 bales compared with 1,309,000 bales last season and 3,012,000 bales in the same period in 1930-31.

During the 4 weeks ended June 7, Egypt exported about 61,000 bales of approximately 750 pounds. This was about the same as in the like periods last year and the year before. For the season, August 1 to June 7 total exports from Egypt amounted to 714,000 bales compared with 914,000 bales to that date last season and 767,000 bales in the 1930-31 season.

Textile Situation

United States

With the advance in commodity prices during April and May domestic sales of cotton textiles increased very materially, and, by the latter part of May, unfilled orders were said to be equal to several weeks production, despite the fact that production was at the highest levels for more than 3 years. Mill activity for the month of May as a whole, as measured by cotton consumption, showed an increase of 32 percent over April and 87 percent over May last year. As compared with the low level of last July, the May consumption represented an increase of 123 percent. The domestic mill consumption in May was almost at as high levels as during the most active months of the 1926-27 season when domestic consumption reached the highest point yet attained.

The 621,000 running bales consumed during May compared with 471,000 bales in April, 332,000 in May last year, and an average of 634,000 bales per month during the last 5 months of the 1926-27 season. In 1926-27 total consumption in the United States was 7,190,000 bales compared with only 4,866,000 bales in 1931-32. The May consumption brought the total consumption for the 10 months this season to 4,839,000 bales, or 574,000 bales above the like period last season. At the end of April this season's consumption was only 286,000 bales above the first 9 months of last season. If the May rate of consumption should be largely maintained during June and July, total domestic consumption for the 1932-33 season will approximate 6,000,000 bales. All but about 125,000 bales of the United States consumption this season will be American cotton. There is little doubt that domestic consumption, and also world consumption of American cotton, will exceed expectations of a few months ago by a considerable amount. Even the most optimistic did not, a few months ago, expect that domestic mills in May would be operating at only slightly less than the record levels of 1926-27.

Great Britain

British exports of piece goods during May totaled 168,700,000 square yards, only a slight decline from the previous month, but 52,300,000 square yards below May last year. Apparently the small exports in May reflected the slack foreign demand which was reported during most of April. The increase in the foreign demand for piece goods reported in late April and during most of May does not seem to have been reflected in the exports in May. If the increase was very substantial June exports should be larger than May. Some observers say that there is a lag of 1 to 2 months from the time the sales are made before the piece goods are exported.

During early June demand for British textiles were not very satisfactory, according to reports, although an increase was said to have occurred for some types of goods. Many offers are said to have been made which were considerably too low due to price advances which have been made by spinners and manufacturers in Lancashire. The mark up in textile prices stimulated some buying, but other prospective purchasers are said to have been awaiting price reactions.

Continental Europe 1/

Reports from European cotton textile centers continued favorable during the month of May. The continued rise in raw cotton prices during most of the month stimulated the acquisition of raw cotton by continental spinners and merchants, and this buying had not only a speculative note, but was also well supported by an increase in yarn and cloth business in a large part of Europe.

New sales by cotton spinners of cotton yarns to weavers and especially to knitting and hosiery mills improved considerably during May in central as well as western Europe, whereas Italy reported a decline. New business of cotton weavers has also improved considerably, and knitting and hosiery mills sales were reported to have been of an extensive volume in both Germany and adjoining countries including France. Italy, however, again complained of an unsatisfactory turn in business.

As a result of these generally favorable tendencies, mill activity rose somewhat in the case of spinners, weavers and other manufacturing mills in France and central Europe. On the other hand, the reduction in unfilled orders which occurred as a result of unfavorable developments in new business in Italy, prompted some reduction in mill activity there.

Spinner buying of raw cotton improved throughout May and attained considerable volume particularly during the first half of the month. The latter part of the month was characterized by a somewhat hesitant attitude on the part of spinners and merchants, as a result of the then receding prices of raw cotton. Price fixation was also large during this period.

1/ Based largely on a report prepared by Donald F. Christy, Assistant Agricultural Commissioner, dated June 7, supplemented by cable on June 16.

Germany

Business in the German cotton textile industry was reported to have shown further improvement during May. Sales of cotton yarn as well as cotton cloth, knitted goods and hosiery were large and were effected at rising prices. As a result, mill activity also increased in both spinning and manufacturing mills. It was pointed out by some reports that a factor which contributed to the extent of the May improvement was the increasing demand for material used in the manufacture of flags and uniforms.

Particularly favorable reports were received during May from the Rhineland and Westphalia as well as Bavaria. Unfilled orders on hand in the spinning section are sufficient, at present levels of occupation, to last the industry for several months ahead. The most important development seems to be the growing opinion that the present favorable tendencies are due, partly, at least, to a real upturn in consumption.

The German cotton spinner report now available in detail for the month of April indicated that a gradual improvement in business occurred as a result of returning confidence. Increased sales and increased calling on old contracts was significant, so that a reduction in mill stocks of cotton yarn resulted. Unfilled orders at the end of April assured a fair level of occupation for several months ahead. On the other hand, continued complaint was expressed in regard to offers of cotton yarn by British competitors at very low prices. Similarly, the weavers' report for the month of April indicated a more than seasonal improvement in business and generally returning confidence. Some stimulating effect was ascribed to the rising raw cotton prices during the second half of April. Fabric exports were considerably handicapped by currency developments in other countries.

German cotton spinners' and German merchants' buying of raw cotton through Bremen was very significant during the first part of May, but became quieter in the second half. Price fixing was important throughout the month and especially during periods of rapidly increasing raw cotton quotations.

New statements published by important German cotton textile concerns indicate that, as was to be expected, several more enterprises were forced to cut out dividends for 1932 entirely, and in some instances even carry forward into the new account a certain loss. The hope is generally expressed that margins will develop more favorably during the current year.

Czechoslovakia and Austria

Reports from the Czechoslovakian and Austrian cotton textile centres continued unfavorable through May, although a certain revival in new sales of cotton spinners and manufacturers was evident. The rising prices of raw cotton during the first weeks in May stimulated the buying interest on the part of the spinners, weavers and merchants for raw cotton, cotton yarn, and cotton manufactures respectively, but it seems that this movement is not so well substantiated by developments in ultimate consumption as is the case in Germany. As the industries in these countries, particularly Czechoslovakia, are largely dependent on an increase in exports of cotton manufactures, any improvement in business and mill activity is bound to be short-lived, if an increase in the export trade does not develop. So far the prospects for an imminent revival of Czechoslovakia's foreign trade in textiles are not good.

The recognition of these prospects found a renewed expression at the general meeting of the Association of Czechoslovakian Textile Industrialists held at Prague the end of May. It was demanded that the agrarian protective policy adopted in recent years be considerably moderated in order to facilitate the exchange of agricultural goods from Yugoslavia, Rumania, and Austria with Czechoslovakian textile goods.

France

Developments of cotton mill business and occupation during the month of May were favorable, and a generally high level of mill activity was reached at the end of the month.

At the beginning of the month there was still considerable hesitancy evident in the trading of cotton yarn and cotton manufactures, but a considerable increase in both spinner and weaver business occurred toward the middle of May and continued, although somewhat quieter, to the end of the month. A considerable stimulus to yarn and cloth business was offered by the increase in raw cotton prices. Cotton mill stocks of yarn and cloth are reported to have been reduced through the increase in business activity, so that the level of occupation in the mills increased.

Spinner buying of raw cotton was fairly active during the first part of the month, but was later confined mostly to near requirements. Price fixation was of moderate volume.

Italy

Contrary to developments in the other countries, reports from Italy during the month of May were pessimistic, and a decline of new business of spinners, weavers and knitters as well as in the occupation of the mills was indicated. Spinners and weavers reported a reduction in incoming mill orders, a fact which brought about a reduction in mill activity.

Spinner demand for raw cotton during the first half of the month was fairly important, and price fixing attained a considerable volume. During the second half of the month, however, spinner buying of raw cotton was small, but price fixation remained important.

Poland

Recent reports on conditions in the Polish cotton textile industry indicate that a considerable revival of business in cotton yarn and cotton cloth as well as in knitted goods and hosiery has taken place at increasing prices. As a result of the improvement in business, cotton yarn stocks at Lodz have declined considerably, and mill activity has increased. Business in finished cotton cloth was particularly large and the factories were compelled to work at full capacity for several weeks. As is usually the case in times of improving conditions, the Spinner Cartel has been further weakened by the withdrawal of 11 firms.

Basically, the situation in the Lodz cotton textile industry still offers considerable grounds for complaint. A number of the large enterprises are practically state-owned, or are financed to a considerable extent by contributions from the Government or outside sources.

Russia

The April production plan of the cotton textile industry was fully executed and even slightly surpassed, with the output of cotton fabrics amounting to 248,013,000 yards or 101 percent, of the plan. This production of fabrics was somewhat below that of the previous month, but above that of April 1932 and April 1931. Yarn production was also fully up to the plan, with 30,236 metric tons, or 66,660,000 pounds, or 102.4 percent of the plan produced in April, which is also somewhat less than in March this year, but more than in April a year ago.

China

Chinese cotton consumption during April is said to have declined and was perhaps the lowest for several months. However, mill activity started picking up in late May, and, by mid-June, activity was estimated at 85 percent of capacity in the Chinese section of the industry and 80 percent in the Japanese owned mills. At mid-May activity in each of these two sections of the industry was about 70 percent of capacity. The easing of the political situation in North China has created some optimism, but at the middle of June the yarn market was still very weak and demand was only sporadic.

Yarn stocks showed further accumulation during the month of May, although due to the reduced rate of mill activity, the rate of accumulation was not so great as in the previous month. The prices of cotton yarn showed some further weakness during May, although the prices of raw cotton strengthened.

The supply of Chinese cotton in China at mid-June was reported as getting very short with something like 10 percent of the estimated commercial crop remaining. The short supplies of raw material may result in some reduction from the present rate of activity before sufficient supplies can be brought in. Unless some improvement occurs in the demand for cotton yarn, a reduction in mill activity may be necessary if the large stocks of yarn are to be reduced.

The Chinese piece goods market during the period from May 15 to June 15 remained quiet with dealers interested in purchasing cheap, low grade cloths. Stocks of piece goods as a whole were said to have been light toward the middle of June, and market prices remained steady at higher levels than a month earlier.

Japan

The demand for spot cotton in Japanese markets improved during the latter part of April and the first 3 weeks of May according to a report prepared in late May by Consul Donovan at Kobe. Sales of American cotton were said to have exceeded arrivals and the cotton afloat, so that some reduction in stocks was expected. The report stated that uncertainty regarding the course of yen-dollar exchange had and was holding up purchases of American cotton, but that the declining stocks were expected to bring about increased purchases within a short time. However, stocks of American cotton in Japan were still rather large.

Imports of American cotton during April totaled about 102,000 bales of 500 pounds compared with imports of Indian of 150,000 bales of similar weight. This was the first time for more than a year and a half that imports of Indian have exceeded imports of American. The relatively larger imports of Indian during April reflect the improvement in the price parity in favor of Indian.

Yarn production in May was only slightly less than the record production during April. The 252,600 bales (of approximately 400 pounds) of yarn produced in May was 20,000 bales or 9 percent greater than production in May last year, and brought the total for the first 10 months of the season to 2,425,000 bales compared with 2,291,000 bales during the like period last season. The present indications are that the total consumption of cotton in Japan during the season ended July 31 next will exceed the record year 1929-30, since yarn production so far this season has been above the like period of 1929-30. Yarn production dropped considerably during the last 2 months of the 1929-30 season.

India

During the first few months of the season Indian mills used larger quantities of Indian cotton than they had ever used during corresponding months. Since December mill activity has declined, and in April mill consumption of native grown cotton was the smallest for that month since 1928. However, for the first 9 months of the season total consumption was about the same as in the like period during the 1929-30 season and larger than in the similar period of any other season in the history of the Indian cotton textile industry.

The competition from Japanese goods has no doubt been an important factor in the reduced activity in the Indian mills. The large imports of Japanese goods were largely responsible for a rather recent increase in the Indian tariff rate on non-British goods.

Production, Acreage, and Crop Conditions

United States

At the present time those interested in the cotton situation are watching with considerable interest the results of the Agricultural Adjustment Administration's efforts to get cotton farmers to cooperate in the reduction of this year's acreage. Contracts will be offered cotton farmers during the week beginning June 26. The contract constitutes an agreement between the farmers and the Secretary of Agriculture, whereby the Secretary agrees to pay the farmers for the taking out of production acreage which has been planted to cotton this year.

Private estimates have been indicating an increase in this year's acreage ranging up as high as 11 percent. The first official acreage estimate of the Department of Agriculture will be released on July 8 giving an estimate of the acreage in cultivation on July 1. If a sufficient number of acres should be contracted for to justify putting the adjustment plan into operation, the farmers will not be asked to take the land out of cotton until after July 1. Therefore, the estimate of the acreage as of July 1 will not be affected by the adjustment plan.

During the first part of the planting and growing season the domestic crop was considerably retarded by unfavorable weather conditions. In recent weeks the weather has been more favorable and the crop has made fairly good

progress in most sections of the belt. There are still large sections in the South Plains of the Texas Panhandle which are so dry that relatively small percentages of the crop have been planted. Cotton planted in these regions after June 20 does not generally give very satisfactory yields due to the short growing season.

Russia

The cotton planting campaign is approaching its end, with the chief cotton producing regions of the Union, the middle Asiatic republics, reporting the plan 90 percent completed by May 15. Total sowings to that date in middle Asia were reported to have amounted to 2,796,000 acres. It appears that this year's sowings were something like 15 percent below those of a year ago. This lag is attributed to the unfavorable spring weather in large sections of the cotton growing regions. No data are available on total plantings of cotton for the Union as a whole.

A recent stipulation of the Government foresees several measures, all aiming to assure high yields of cotton by proper and timely cultivation. Thus, cotton is to be worked up three times during the maturing season, with provisions for the first to be accomplished by June 10, the second by July 1, in middle Asia, and June 25, in the other regions, and the third not later than 20 days after the second. Day and night irrigation is also to be organized, and care is to be taken that the more experienced farmers are engaged for this type of work. Measures to protect the cotton crop from locusts and other noxious insects are also to be taken.

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